

# Competition Strong for South Korea's Robust Wine Market

By Sangyong Oh

**M**ore and more Koreans are favoring diets that reflect health-consciousness and include Western foods. And with that, the popularity of drinking wines with meals is growing.

Virtually all wines consumed in South Korea are imported. Domestic vineyards and wine production have almost disappeared due to their lack of price and quality competitiveness against imports. Only two local liquor manufacturers are bottling wine locally, mainly using imported bulk wines.

In calendar 2003, the United States was the second largest exporter of wines to South Korea, setting record-high sales at \$9.43 million, a 54-percent increase over 2002. But France continues to dominate the market. Italy, Chile, Australia and Spain increased their market shares in 2003, narrowing the gap with the United States. In short, the competition is keen.

The reputation of and demand for U.S. wines are growing rapidly. There is a large Korean population residing in or traveling to the United States, creating taste and brand loyalty.

## The Market Is Still Developing

In South Korea, consumption of alcoholic beverages is considered an extremely important part of social culture and is often suggested on social occasions. But wines remain relatively new to most Koreans. Beer and Korean vodka (*soju*) still rule the market. Currently, wines comprise less than 1 percent of the total



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market for alcoholic beverages.

But with new consumers being added every day, the Korean wine market has good potential for imported wines at all price and quality levels. Mass retailers, such as hypermarkets, supermarkets and convenience stores, have become the major distribution channel for low- to mid-priced wines, while specialty retailers, mainly independent liquor stores, are concentrating on mid- to premium-priced wines. A typical mass retail store features anywhere from 50 to 100 wine varieties in a separate section.

Approximately 60 percent of wine consumption occurs in the home, with the other 40 percent taking place in restaurants. Wine sales increase during traditional Korean gift-giving holidays such as *Chusok* (September), Christmas and

Lunar New Year's Day. Wine gift sets are becoming increasingly popular, replacing gift sets of liquors.

Currently, red wines are making up 70 percent of the market share, but sparkling and other white wines have room for growth.

With the growing popularity of wines in South Korea, the country now has wine schools, Internet-based wine organizations, wine bars and wine exhibitions. The popular press has run numerous stories extolling the health benefits of moderate wine consumption with meals.

*Le Seoul*, a quarterly magazine, delivers news of the wine industry. The Korean California Wine Importers Association, organized in 2002 by 16 local wine importers, offers a targeted marketing channel for California wines. The Seoul

## WINE IMPORTS WILL SHOW DOUBLE-DIGIT GROWTH FOR YEARS TO COME.



### Opportunities and Challenges of the Korean Wine Market

#### Opportunities:

- South Korea is one of the world's biggest markets for alcoholic beverages.
- U.S. wines have a growing reputation against European products.
- Korean consumers have knowledge of English and products labeled in English.
- Young consumers are leading the expansion of wine drinking.
- Import prices of European wines have increased significantly in recent years due to continuous appreciation of the euro against the Korean won.

#### Challenges

- There is still a lack of consumer awareness about wines.
- U.S. wine exporters have little understanding of the Korean wine market and culture.
- South Korea has complex labeling and tax requirements.
- Marketing and promotional efforts by U.S. wine suppliers are limited.
- Many Korean opinion leaders believe French wines are superior to U.S. wines in quality and value.
- Emerging suppliers, especially Australia and Chile, are expanding their market shares in medium- to low-priced wines, while France and other European countries are gaining in high-priced product categories.

Wine Expo, an annual trade show, is an excellent marketing tool to introduce new wines to potential consumers.

U.S. wine suppliers would benefit by employing some of the export-oriented marketing tactics used by competitors from Europe and other regions. Tasting seminars, invitations to the Korean wine trade press to attend overseas wine exhibi-

tions, cultural events coupled with wine promotions, trips to wineries and local food shows and wine schools would all help Korean importers build long-term business relationships with U.S. wineries.

#### Rules of the Road

Since 1988, wine imports have been liberalized in South Korea. Any licensed importer can now import liquor products, and there is no significant barrier to earning a license. There are about 160 liquor import licensees in South Korea, but only about 25 of them import on a regular basis.

Most importers also have a liquor wholesaling license, which allows them to distribute directly to retailers and restaurants. Some importers operate their own retail liquor stores under a separate business license.

The Korean Liquor Act prevents a distributor from purchasing liquor products from another distributor on the same level or below (for example, retailers from retailers or wholesalers from wholesalers) for resale. In 2001, the Korean government abolished a restriction that had prevented local liquor manufacturers from importing liquor products directly.

In South Korea, consumer prices for wines are quite high. A combination of import duties, taxes, large distribution costs and markups results in retail wine prices two to four times those in the United States.

For example, wines imported into South Korea are subject to a 15-percent tariff, a 30-percent liquor tax and a 10-percent education tax. When importer and retail markups are added in, a bottle of wine costing \$10 in the United States will sell for \$23-25 in Korean discount stores, and even more in other retail outlets.

Imported wines must have Korean language labels. In many cases, the importer attaches the label when the shipment arrives, before customs clearance.

All foods and beverages are subject to Ministry of Health and Welfare/Food Quarantine inspection. The first shipment of a product requires a detailed chemical analysis test. Subsequent shipments are subject to visual and documentation inspections. Established importers are the best source of current labeling and inspection information. ■

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